

1 take public broadcasting off the annual appropriations for the  
2 federal government.

3 COMMISSIONER CHONG: Now, would there be any  
4 possibility that some of the spectrum that would be leased by  
5 the trust could possibly be leased to people like Mr.  
6 Grossman's group of community broadcasters?

7 MR. LIROFF: I don't know that there are any  
8 conditions that have been proposed that would limit the use of  
9 that spectrum.

10 COMMISSIONER CHONG: But it's possible there might  
11 be spectrum there that could be available for someone like a  
12 community broadcaster?

13 MR. LIROFF: So far as I know, consistent with the  
14 desire to generate sufficient revenue to fund public  
15 broadcasting.

16 COMMISSIONER CHONG: That's all I have for now.

17 COMMISSIONER HUNDT: Thank you very much. Mr.  
18 Allan, the median income in the United States, the last time I  
19 looked, was about \$35,000 a year for a family of four. You  
20 picked the \$40,000-a-year number for your survey,  
21 substantially more than half of all Americans make less than  
22 \$40,000 a year, what percentage of your sales of the DDS  
23 dishes have gone to people who are truly in the low income  
24 category, let's say the bottom fourth in terms of income?

25 MR. ALLAN: In was roughly, and I have to go back

1 and check the figure for you, but it was in excess of 20  
2 percent.

3 COMMISSIONER HUNDT: About 20 percent of your sales  
4 have gone to people who make less than what?

5 MR. ALLAN: I believe it was less than \$28,000, was  
6 the other cut point.

7 COMMISSIONER HUNDT: Now, do you think these people  
8 will also, in addition to having purchased your satellite  
9 dishes, will they also be interested in buying a home theater  
10 for watching the local terrestrial high definition programs  
11 that Mr. Gabbard might want to show in that same area along  
12 the Ohio River that you were talking about, will they want to  
13 do both?

14 MR. ALLAN: Some of them may, but I would assume in  
15 that income, they've made a decision with their DDS service,  
16 they will stay with that until they feel something is  
17 affordable that they can replace it with. So I think it would  
18 be doubtful that they would do both.

19 COMMISSIONER HUNDT: So those consumers presumably  
20 have already gone digital by buying the Hughes or Hubbard or  
21 whoever else is providing the satellite service.

22 MR. ALLAN: They've gone digital but you must  
23 recognize that there is a high definition television port on  
24 the back of the DDS box that will let them pass the signal by  
25 satellite into an HDTV receiver in the event they wanted to do

1 so. So there is an upgrade capability built into DDS for the  
2 future so that those people do have the ability to get HDTV.

3 COMMISSIONER HUNDT: Right, and did Thomson try to  
4 persuade Hughes or Hubbard to deliver some high definition  
5 format programming?

6 MR. ALLAN: We're working with them right now.

7 COMMISSIONER HUNDT: Have you persuaded them yet?

8 MR. ALLAN: We're working very hard on it.

9 COMMISSIONER HUNDT: But you haven't asked the  
10 government to order it, you're willing to negotiate.

11 MR. ALLAN: I don't own the satellite and I can  
12 prompt them and encourage them --

13 COMMISSIONER HUNDT: Well, the spectrum is a public  
14 spectrum, but you have to come to us and ask us to order a  
15 particular format there.

16 MR. ALLAN: But I think you will find that right now  
17 they have a competitive advantage with the quality of the  
18 program they're putting out and not a business decision. They  
19 will make a decision on when it's appropriate for them to take  
20 the next step to remain in a competitive advantage.

21 COMMISSIONER HUNDT: That's the kind of thing I like  
22 to hear. I've managed to get some of the witnesses in the  
23 previous panels to agree with me that at least as to 163 of  
24 168 programming hours, they don't think the government should  
25 micromanage the format selection. I think I'm kind of stuck

1 in the last three to five hours, they're insisting that we do  
2 a little micromanagement there. Mr. Abel, can you give us  
3 your views on this question of whether the government should  
4 mandate some specific quantitative amount of broadcasting in  
5 the high definition format which, I believe, I think it's Mr.  
6 Tasker's statement, says it's one of the 14 formats?

7 MR. ABEL: My view on that is that if makes somebody  
8 happy out there and somebody thinks it's going to drive the  
9 market, let them try it. I have no objection to a minimum  
10 number but I think the minimum number is always going to be  
11 arbitrary, somebody is not going to be happy about that  
12 particular number. But as far as mandating a particular  
13 number, I don't think it's -- if someone thinks this is going  
14 to drive the market, that's fine.

15 COMMISSIONER HUNDT: Well, do you think that  
16 mandating the broadcast of high definition format from 4:00  
17 a.m. to 6:00 a.m. in the morning is going to drive any  
18 particular market?

19 MR. ABEL: Probably not.

20 COMMISSIONER HUNDT: It kind of depends on whether  
21 it's the time of day in which there's popular programming  
22 being shown.

23 MR. ABEL: I'm not sure it's time of day, I think it  
24 depends on program content.

25 COMMISSIONER HUNDT: Program content.

1 MR. ABEL: There are two types of program content  
2 that are important.

3 COMMISSIONER HUNDT: Which are?

4 MR. ABEL: Sports and movies.

5 COMMISSIONER HUNDT: Would you suggest that the FCC  
6 mandate that sports and movies be broadcast in a high  
7 definition format?

8 MR. ABEL: Personally, I would love it.

9 COMMISSIONER HUNDT: Do you think that that's the  
10 type of thing broadcasters would like to have us do, Mr. Abel?

11 MR. ABEL: I think that --

12 COMMISSIONER HUNDT: Excuse me, let's let Mr.  
13 Gabbard answer that since he's a broadcaster. Should we  
14 mandate that sports and movies be broadcast in the high  
15 definition format as Mr. Abel has suggested, says that he  
16 would love?

17 MR. GABBARD: I don't think you'd need to mandate  
18 it. I think all the networks have already said to you and  
19 certainly to me, that they're going to be in the high  
20 definition area, that they will take the lead to provide the  
21 service and try to drive the consumer. We, as broadcasters,  
22 will follow when we're able to, and as I said earlier, I think  
23 the good ones will be first and provide it for their  
24 communities. But I don't think you need to mandate it.

25 COMMISSIONER HUNDT: Mr. -- I didn't cut you off,

1 | did I?

2 |           MR. GABBARD: No, sir.

3 |           COMMISSIONER HUNDT: Mr. Tasker, you are suggesting,  
4 | are you not, that the government should mandate some  
5 | broadcasting in a different format, mainly progressive format?

6 |           MR. TASKER: Mr. Chairman, the FCC is going to set  
7 | some standards here, if the FCC were not going to set any  
8 | standards here and the marketplace were going to do its work,  
9 | that would be a different thing. What we are asking for is  
10 | that we have one transmission standard that, if we're going to  
11 | do deinterlacing, we do it at a place where it's most economic  
12 | and efficient and cost effective for consumers and that's, we  
13 | think, at the head-in, not additional costs to the consumer's  
14 | box.

15 |           COMMISSIONER HUNDT: The joint statement of the  
16 | Computer Industry Coalition on Advanced Television Services,  
17 | at the top of the second page, points out that the ACATS, our  
18 | advisory group, has proposed 14 display formats.

19 |           MR. TASKER: That's right.

20 |           COMMISSIONER HUNDT: We could well say that any one  
21 | of those formats should be selected by a broadcaster at any  
22 | given second and let the market decide. Is that all right  
23 | with you if we go that route?

24 |           MR. TASKER: No, we're not asking for that, we're  
25 | asking for -- there are a selection of formats for different

1 reasons, but we are asking for a progressive scan.

2 COMMISSIONER HUNDT: You're asking that we prohibit  
3 some of these formats and allow only those that are  
4 progressive, do I understand you correctly?

5 MR. TASKER: We want to see the maximum amount of  
6 compatibility to do the kinds of things that you've talked  
7 about and Mr. Liroff and others have talked about with text  
8 and graphics and video all mixed up in what we call multimedia  
9 applications at the lowest possible cost to the widest number  
10 of consumers and we think that's done best by specifying  
11 progressive scans.

12 COMMISSIONER HUNDT: By progressive -- so you want  
13 us to forbid interlaced format, is that correct?

14 MR. TASKER: Yes.

15 COMMISSIONER HUNDT: And, Mr. Allan, do you want us  
16 to forbid the interlaced format?

17 MR. ALLAN: No, we fully intend to build sets that  
18 handle both interlace and progressive scan. If you look at  
19 the specification done by the Grand Alliance, 12 of the 14  
20 formats in the system are progressive scan formats and I think  
21 yesterday, as the Commissioners saw when they saw the  
22 demonstration, one of the tests of compatibility in the  
23 interoperability is being able to read 9-point type and I  
24 think in the high definition format, we showed clearly that  
25 that was legible and there's no issue in using interlace. As

1 far as the cost of deinterlacing in a set, we have progressive  
2 scan sets, we do it today. Our first high definition sets  
3 will progressive scan, and they will also be capable of  
4 handling interlace materials. So from a set manufacturer's  
5 standpoint, we don't see it as a major challenge.

6 COMMISSIONER HUNDT: So, if we didn't prohibit any  
7 formats, we just let the market take place in this connection,  
8 rollout what it wants, that'd be all right with you?

9 MR. ALLAN: I think the formats have been very  
10 carefully defined by over 100 companies in a variety of  
11 industries from telco to computer to IC manufacturers, to  
12 consumer electronic set manufacturers. There have been many  
13 compromises made, it's been addressed numerous times, it's not  
14 a new issue, and in each and every case the conclusion has  
15 basically been a consensus that the formats that we have are  
16 appropriate to go forward and I think if you look at the  
17 reports from the NII and their survey two years ago, the  
18 people at the NII, in their report, suggested that the Grand  
19 Alliance system be promoted and that we try and adopt it and  
20 implement it as rapidly as possible and there have been other  
21 government agencies and organizations that have had similar  
22 views.

23 COMMISSIONER HUNDT: I've gone over a minute, we  
24 have three minutes left, would any of my colleagues like to  
25 use any of the remaining three minutes?



1 COMMISSIONER NESS: I think we have another round.

2 COMMISSIONER HUNDT: We have another round, I mean,  
3 for this particular --

4 COMMISSIONER BARRETT: Yes, for this panel, we  
5 haven't had our second round, yet.

6 COMMISSIONER NESS: This is the last panel and we  
7 haven't had our second round yet.

8 COMMISSIONER HUNDT: But what I'm saying is, this  
9 panel was supposed to go to 4:15.

10 COMMISSIONER BARRETT: No, 4:30.

11 COMMISSIONER NESS: 4:30.

12 COMMISSIONER HUNDT: Even better than, would anyone  
13 else like to ask?

14 COMMISSIONER NESS: I think we're going to continue  
15 on.

16 COMMISSIONER BARRETT: I guess we're going to get --

17 COMMISSIONER HUNDT: I mean, we have another round  
18 and --

19 COMMISSIONER NESS: Yes.

20 COMMISSIONER QUELLO: One more round, Dr. Abel.

21 COMMISSIONER HUNDT: I apologize.

22 COMMISSIONER QUELLO: Dr. Abel, I have great respect  
23 for the technical, administrative and academic achievements of  
24 Dr. Abel, who you may not have known, was a former candidate  
25 for president of my university, Michigan State University, and

1 | incidentally, I have to mention, naturally, gentlemen, that  
2 | Michigan State did beat Michigan this year for a change, and  
3 | it made our whole year successful.

4 |           MR. ABEL: Thank you.

5 |           COMMISSIONER QUELLO: But you know, I'm going to  
6 | give you a hypothetical question, it's very hypothetical. And  
7 | this is the kind of a question that every chairman really  
8 | fantasizes about, including me, and that is, let's assume you  
9 | are now the sole FCC commissioner and chairman of the FCC,  
10 | you're in control, I'm going to yield my six minutes to you,  
11 | what would you do implement and expedite HDTV today, advanced  
12 | television today, and if you have priorities, list them.

13 |           COMMISSIONER BARRETT: First of all, you don't have  
14 | six minutes, secondly, you will recall Reed -- called his  
15 | excellency, director general, not chairperson.

16 |           COMMISSIONER QUELLO: Oh, well --

17 |           COMMISSIONER BARRETT: If there is one, it'll be his  
18 | excellency.

19 |           COMMISSIONER QUELLO: I'd be glad -- I'll repeat  
20 | then, they'll never call him as long as he has anything to do  
21 | with the FCC, your serene highness, your excellency, or  
22 | whatever.

23 |           MR. ABEL: Well, I think you've given me a really  
24 | softball question here. One, selective standard, the standard  
25 | is critical to the selection -- to the development of the

1 market, it's critical to the success of this for the public  
2 and the consumer as well as the broadcaster.

3           No. 2, make the standard as flexible as possible. I  
4 am the posterboy for flexibility and I appreciate that role,  
5 but it would be tragic to go to digital broadcasting and only  
6 have HDTV. I think HDTV is a very important part of this. I  
7 think HDTV should be maybe the centerpiece of this in the  
8 early stages, but the standard should be as flexible as  
9 possible.

10           No. 3, you are going to encounter massive problems  
11 in implementing HDTV in this country or advanced television in  
12 this country that have not been faced yet and I think these  
13 problems relate to interference. We've covered some of these  
14 issues here today with respect to translators and low power TV  
15 stations, but they're beyond that, they go to the issue of  
16 interference from the NTSC channels to the digital channels  
17 and digital to NTSC. There will be, I predict, some problems  
18 with the assignment of the stations of the channels in the  
19 sense that broadcaster is going to broadcaster in this and I  
20 would like for you to work to minimize those litigation issues  
21 to make this advanced television happen as rapidly as  
22 possible. I think those are the major points that I would  
23 consider.

24           COMMISSIONER QUELLO: Good, I think that's going to  
25 take care of me.

1 COMMISSIONER BARRETT: And I next, Mr. Chairman.

2 COMMISSIONER HUNDT: Do you want to give your six  
3 minutes to someone else?

4 COMMISSIONER BARRETT: Sherwin, my good friend, how  
5 do you propose that we can go forward with digital TV without  
6 adversely impacting community broadcasters?

7 MR. GROSSMAN: There are certainly markets that  
8 you're going to impact them. I think basically, if we're  
9 going to go forward under the present system, we have to have  
10 an opportunity to try and work it out and we need 180 days,  
11 120 days to do it --

12 COMMISSIONER BARRETT: We, meaning your group with  
13 others?

14 MR. GROSSMAN: Yes. In answer to Commissioner  
15 Quello's, I have a much wilder idea. You could -- if you take  
16 seven years as a point where you make all sets during that  
17 period are made with a converter, and at the end of that time  
18 you switch on the main -- on the same channels we're now  
19 broadcasting on, everybody, to digital, bring back your power,  
20 it's about a 10 to 1 drop, add an exciter to the transmitter,  
21 readjust the main tube, you're broadcasting digital. You  
22 don't need a new tower, you haven't gone into the new  
23 antennas, they'll work the same, same transmission lines.  
24 Now, you have a system because basically you've got a system  
25 today where there's over 6,000 transmitters to serve this

1 country. You're talking about reducing it to 1,500, it ain't  
2 going to work.

3 COMMISSIONER BARRETT: Okay.

4 MR. GROSSMAN: You're not going to serve the people  
5 of this country.

6 COMMISSIONER BARRETT: Okay, thank you very much.

7 COMMISSIONER HUNDT: Commissioner Ness.

8 COMMISSIONER NESS: Thank you. Mr. Tasker, the  
9 proposed standard is for broadcasting. Broadcasters say  
10 today's technology limits them to interlace for delivering  
11 full HD over the air within a single 6 MHz, is that correct,  
12 is my information correct on that?

13 MR. TASKER: I didn't say that, it's -- we have a  
14 different view. They say that you can't broadcast a 1,000  
15 line progressive scan.

16 COMMISSIONER NESS: Right, to get to the 1,000-line  
17 full HD.

18 MR. TASKER: Well, but 1,000-line --

19 COMMISSIONER NESS: That you don't need full HD.

20 MR. TASKER: -- interlace is comparable to a 720-  
21 line progressive and you can certainly transmit a 720-line  
22 progressive over a 6 MHz channel, so those are the  
23 comparisons.

24 COMMISSIONER NESS: Okay.

25 MR. TASKER: And we think that when you make those

1 | comparisons, you will see a big difference in the way the text  
2 | handled and that the progressive text is a lot better.

3 |           COMMISSIONER NESS: Have you seen the demonstration  
4 | across the street?

5 |           MR. TASKER: I got about half way through it before  
6 | coming over here, I plan to go back.

7 |           COMMISSIONER NESS: Okay, my recollection is there  
8 | was one demonstration, and maybe Mr. Allan can elaborate on  
9 | this, but there was one demonstration where we saw in  
10 | interlace, text that was quite clear, I was surprised, in  
11 | fact, that it was feasible. I think we also saw a  
12 | demonstration by Texas Instruments, and I'm trying to recall  
13 | back there as to whether that was an interlace or a  
14 | progressive display.

15 |           MR. TASKER: Progressive.

16 |           COMMISSIONER NESS: It was a progressive display,  
17 | okay. Did you see the ones that I'm talking about that did  
18 | show on big screen in the interlace format?

19 |           MR. TASKER: No, I guess I didn't.

20 |           COMMISSIONER NESS: If you could read the bottom  
21 | line, your eyes were supposed to be good, and I could read it  
22 | and my eyes are awful so I think that that was relatively  
23 | clear. Now, my recollection was that the working parties of  
24 | our advisory committee were open to everybody who ever wanted  
25 | to do work effectively, what was the extent of your

1 participation in the development of that ACAT standard, or the  
2 Wiley Standard, as, I guess, it's now called.

3 MR. TASKER: The Wiley Standard, indeed. There have  
4 been some computer companies, Apple particularly, that have  
5 tried their hardest to participate for as long as possible in  
6 the ACATS process, and I think, in fairness to the ACATS  
7 folks, the formats that my colleague from Thomson identified  
8 as progressive, are probably there because of input from the  
9 computer industry two or three years ago, we were concerned  
10 that there was no progressive scan in the planning and there  
11 are now a number of progressive scan formats and we're very  
12 pleased that they exist. Our concern is that the interlaced  
13 residue in the system will keep those progressive formats from  
14 becoming the dominant form.

15 Now, people can say that Compaq could be faulted for  
16 not being in the process earlier. We do not. Three years  
17 ago, two years ago, the convergence of technology that would  
18 make television a very interesting thing to us, was not  
19 apparent, frankly. I mean, the kinds of things that Mr.  
20 Liroff is talking about, the kinds of things that make this  
21 real interactive, interesting, computer television multimedia,  
22 call it what you want, that was not in existence two or three  
23 years ago. Now, if we can be faulted for that, television was  
24 television then, it's television now, it was television 10  
25 years ago. Ten years ago Compaq Computer Corporation was two

1 years old and barely existing and the personal computer was a  
2 very different animal than it is today. We've gone through  
3 seven product generations since then.

4           So technology has changed a lot for us and today we  
5 find ourselves in the situation where we're all very excited  
6 about the growth of the national information infrastructure,  
7 at reasonable prices to the largest group of consumers that we  
8 can manage to find, and it is just our concern that we make  
9 this new system a full part of that --

10           COMMISSIONER NESS: I agree with you, though, that  
11 it's extremely important to have convergence and to be able to  
12 interconnect with the benefits of computer, with the  
13 television set, but, Mr. Allan, can you tell me approximately  
14 how much additional it would cost the incremental cost of  
15 putting in a chip that would provide both interlace and  
16 progressive?

17           MR. ALLAN: Do interlace? We are already designing  
18 sets, the issue becomes the deinterlacer and estimates have  
19 been made anywhere from \$25 to \$35. Our technical group  
20 believes they can do it for as little as \$10 when we get into  
21 mass production, so relative to the price of the sets --

22           COMMISSIONER NESS: Now, is that retail or is that  
23 cost?

24           MR. ALLAN: That's cost. So take \$10 and make it  
25 \$25 at retail.



1 COMMISSIONER NESS: So that pulls up the cost.

2 MR. ALLAN: So we don't see it as a major overall  
3 cost in moving the overall standard forward.

4 COMMISSIONER NESS: Okay.

5 MR. ALLAN: I think the other thing, if I may say  
6 that we should point out, is that both IBM and DEK have been  
7 very active in those meetings in setting the standard and both  
8 of them have approved the standard and, at the same time,  
9 tried to promote the fact that we should all move to  
10 progressive scan as rapidly as possibly and I think that's  
11 included in Mr. Will's report.

12 COMMISSIONER NESS: Thank you, and I did note that  
13 there were, certainly at the last meeting, that there were  
14 members of the Advisory Committee from the computer industry  
15 who were present and presumably, when the vote was taken, had  
16 an opportunity to vote against the standard.

17 MR. TASKER: May I say that Microsoft is also a  
18 member of ACATS, they joined very late. I guess I would only  
19 say that Compaq is the largest producer of personal computers  
20 in the world, Apple is the second largest. We were not  
21 involved in the process. If you believe that consulting with  
22 IBM and Digital is consulting with the computer industry, it  
23 shows how out of date you are with the modern computer  
24 industry. They are very strong competitors, but they are not  
25 sufficient to stand in for the computer industry of today.

1                   COMMISSIONER NESS: Okay, I appreciate your  
2 viewpoint, thank you. In my half minute left, Mr. Liroff, I'm  
3 aware public television has really been instrumental and very  
4 supportive of the activities of the Advisory Committee. What  
5 are your thoughts on the tradeoffs between SDTV and HDTV?

6                   MR. LIROFF: The tradeoffs in what instances?

7                   COMMISSIONER NESS: In terms of the relative value  
8 of going HD or going SD, providing those services to the  
9 consumer.

10                  MR. LIROFF: We think both are essential and will be  
11 of interest, that is, the flexibility that ATV provides will  
12 allow us to operate in SDTV when appropriate and in HDTV when  
13 appropriate. I wouldn't see one versus the other but both.

14                  COMMISSIONER NESS: Okay, I see my time done, thank  
15 you very much.

16                  COMMISSIONER HUNDT: Commissioner Chong.

17                  COMMISSIONER CHONG: One last question for poor Mr.  
18 Liroff, who I'm picking on. I forgot to task you one more  
19 thing. The small and medium broadcasters had asked us for the  
20 possibility of a slightly longer transition period for them,  
21 would public television stations also want a longer transition  
22 period because of their budget issues?

23                  MR. LIROFF: Yes, we are requesting the same kind of  
24 relief.

25                  COMMISSIONER CHONG: I see, and you would probably

1 want to be treated like the smallest broadcasters, probably.

2 MR. LIROFF: Yes, so far as -- what we have asked  
3 for is an indefinite transition period with an obligation to  
4 convert to ATV in advance of the end of the transition period  
5 once that is determined, but that there should be flexibility  
6 to allow for their financial situations.

7 COMMISSIONER CHONG: Thank you. Mr. Gabbard, you  
8 provided some really good information about the cost of  
9 transitioning for small and medium broadcasters and I found it  
10 very helpful. I think you just clarified that it was about  
11 1.8 million just to pass through the signal digitally and that  
12 doesn't include a new tower, that doesn't include upgrading  
13 your camera equipment and your studio and all that kind of  
14 thing, is that right?

15 MR. GABBARD: That's correct.

16 COMMISSIONER CHONG: Now, some have suggested that  
17 instead of the Commission loaning a second channel to the  
18 broadcasters during the transition period to digital, that we,  
19 instead auction the channels. We had a financier here early  
20 who was talking about the ability of broadcasters to borrow  
21 money in order to finance the transition. I wanted your  
22 opinion about how the small and medium broadcasters would do  
23 in an auction and whether they could raise the capital  
24 necessary to compete in an auction to keep their channels?

25 MR. GABBARD: Obviously we're opposed to auctioning

1 for a lot of reasons, but primarily it's going to hurt the  
2 consumer. If we have to step up, and again, the smaller  
3 stations, the better broadcasters in the smaller markets,  
4 every market has at least one really good broadcaster who is,  
5 in most cases, profitable but not to the degree the bigger  
6 markets are, they put their money back in to serving the  
7 community. That's why they're strong, local, No. 1  
8 broadcaster in most cases. They will try to protect their  
9 business and their community and they will try to compete in  
10 an auction if it came down to that. But if they had to do  
11 it, they're going to have to give up something somewhere in  
12 order to pay that back, and what they give up is the kinds of  
13 local news they do, the high school basketball games, the  
14 community Christmas chorus, whatever it might be.

15 COMMISSIONER CHONG: Now, why would they give that  
16 up? Is it because it's expensive to produce that, or what?

17 MR. GABBARD: It's very expensive to produce. It  
18 costs a lot of money to produce these --

19 COMMISSIONER CHONG: So that's local production as  
20 opposed to the network feed, is that right?

21 MR. GABBARD: I spend \$2 million a year in  
22 Lexington, Kentucky to do news. We put that much emphasis on  
23 local news and proportionately, as we go down to the smaller  
24 markets, Lexington is 68th in the country, as we go down,  
25 proportionately we're spending the same money.

1           COMMISSIONER CHONG: So you're telling me that if we  
2 go to auction, the small broadcasters might choose to compete  
3 to try to keep their channel, one would assume, and to do  
4 that, they may have to reduce their public interest local  
5 broadcasting, is that what you're saying?

6           MR. GABBARD: I can't think of another area they  
7 could get the money, they have to give up something because  
8 this is added-on money, this is not money that's laying there  
9 to be used. If they have to buy the spectrum, then build a  
10 facility, that money has to be paid back somewhere and it has  
11 to come out of whatever profits are there, if there are enough  
12 to do it.

13           COMMISSIONER CHONG: Thank you.

14           COMMISSIONER BARRETT: Yes, let me ask you a  
15 question.

16           COMMISSIONER HUNDT: Were you finished, Mr. Barrett  
17 asked if he could --

18           COMMISSIONER BARRETT: I'm sorry, were you finished?

19           COMMISSIONER CHONG: I will gladly yield to Mr.  
20 Barrett.

21           COMMISSIONER HUNDT: I didn't -- no one wants to cut  
22 you off, though.

23           COMMISSIONER CHONG: No, I'm done.

24           COMMISSIONER BARRETT: I've heard all throughout the  
25 day and I often use the very rather generic term, free over-

1 the-air broadcast, you talk about that if you go into auctions  
2 you will -- something will lose out like the local news. I've  
3 never seen a local news where you gave them money, I thought  
4 all local news, I've seen somebody pay for it, as advertising.  
5 So what is it that would cause you, if you, in fact, aren't  
6 selling at a discount rate to people that sponsor the news --  
7 what is it that -- what would they lose if you -- are you  
8 giving discounts on it now?

9 MR. GABBARD: Let's take a broadcast day, take all  
10 the 18 hours or 20 hours.

11 COMMISSIONER BARRETT: No, no, I want to take the  
12 broadcast news aspects since you mentioned that.

13 MR. GABBARD: I'm coming to that.

14 COMMISSIONER BARRETT: Can you tell me, what is it  
15 that you're giving in the news, in addition to what the  
16 sponsors are paying to have their names or whatever propped up  
17 on the news, I use the term free over-the-air broadcasts and I  
18 accept that premise in terms of some things. But I also  
19 accept a premise that it is not being provided free by you,  
20 but rather it is sponsored by advertizing, people that advertise  
21 with you.

22 MR. GABBARD: Okay, at the end of the news, when you  
23 take all of our news commercials and say that there's "X"  
24 number of dollars there, and at the end of the month, those  
25 dollars translate to either a profit or a loss. Let's assume

1 | there's a profit, and in the good broadcasters there are  
2 | profits, those profit dollars have to be used to then fund  
3 | whatever else you do, whether it be to buy capital  
4 | improvements or hire more news people or whatever. All I'm  
5 | saying is this, Commissioner Barrett --

6 |           COMMISSIONER BARRETT: Well, let me ask you this, do  
7 | you not factor in various kinds of costs and you aggregate  
8 | them into a total advertising -- what you see as your need for  
9 | a quarter or two quarters or a year in terms of what you need,  
10 | in terms of new equipment, can't you project those things?

11 |           MR. GABBARD: Absolutely, we do that, but what we're  
12 | talking about here is over and above our normal capital cost  
13 | every year. We're saying, here's a brand new thing and now  
14 | we're going to have to compete with an auction situation,  
15 | potentially, and if that happened, how could we do that.  
16 | There are no dollars there today to that, that's what I'm  
17 | telling you, in the smaller markets.

18 |           COMMISSIONER BARRETT: Then that becomes a problem  
19 | with the size of the market in terms of what you can do in  
20 | terms of getting ad, but what I'm trying to get rid of, and I  
21 | use it myself because I believe that we need quote, "free  
22 | over-the-air broadcast." And I talk about news and whether or  
23 | not it is raining or snowing or whether or not the school is  
24 | open on a given day. But I've never believed that you were  
25 | providing without a cost to someone, and the cost to someone

1 is to the people that advertise with you, either directly or  
2 through a placement agency.

3 MR. GABBARD: Yes, sir.

4 COMMISSIONER BARRETT: And I cannot believe you sell  
5 ads that do not cover the costs if you anticipated what the  
6 costs would be in terms of equipment replacement, raises, any  
7 number of other things.

8 MR. GABBARD: We can only get so much money for an  
9 ad, it's based on how many people are watching a particular  
10 program, that's how we price it. So if I were to go in  
11 tomorrow and say to an advertiser, we're now going to charge  
12 you 50 percent more or 25 percent more because I have to build  
13 a new system here. The advertiser is going to look at me and  
14 say, what do I get out of it, are you going to sell more  
15 widgets for me? And I have to say, no, I'm just going to  
16 charge you a premium because the government's making me do  
17 this. That's not going to work very well with the advertiser.  
18 He advertises for one reason only, and that is that we sell  
19 his product through reaching the consumer who goes and buys  
20 the product. So, yes, the consumer pays us to provide that  
21 service, but it's doing it through the advertising supported  
22 system, and therefore it is free to the consumer at home.

23 COMMISSIONER BARRETT: Yes, and I don't question  
24 that, but I'm just suggesting that it's been provided for not  
25 by you directly but rather by your having space and time to



1 sell.

2 MR. GABBARD: Right, I just don't want you to assume  
3 that there are new dollars laying there that we can sudden  
4 take and build a brand new facility over and above what we do  
5 every year to stay in business.

6 COMMISSIONER BARRETT: Yes, but I don't want -- I  
7 don't want to assume either that you're not covering the costs  
8 of providing news to people.

9 MR. GABBARD: We are covering the costs. I never  
10 meant to infer --

11 COMMISSIONER BARRETT: Okay, I just -- oh, I'm  
12 sorry, I thought you said that --

13 MR. GABBARD: No, I'm saying that if we have to  
14 provide this new service out of today's operational budgets,  
15 then something has to be cut back in order.

16 COMMISSIONER BARRETT: Okay, thank you. I'm sorry,  
17 Mr. Gabbard, I apologize.

18 COMMISSIONER QUELLO: I'd like to clarify that  
19 answer a little bit, because --

20 COMMISSIONER BARRETT: Yes, because I did ask it in a  
21 rather confusing manner because I'm talking about something I  
22 don't know anything about.

23 COMMISSIONER QUELLO: One, you know, sponsorship is  
24 --

25 COMMISSIONER HUNDT: They're not taking this away